

AR 35



# ponder oils

1971





# **Annual Report to the Shareholders**

## **PONDER OILS LTD.**

**Incorporated under the Laws of the Province of Alberta**

**(Listed on the Toronto Stock Exchange)**

**HEAD OFFICE — 300 BENTALL BUILDING  
CALGARY 2, ALBERTA**

### **DIRECTORS AND OFFICERS**

**D. A. McFee, Winnipeg, Manitoba — President and Director**  
**Geo. R. Gibson, Midland, Texas — Vice-President and Director**  
**W. L. Falconer, Calgary, Alberta — Director**  
**F. Leroy Hill, Rockford, Illinois — Director**  
**A. B. McLean, White Rock, B.C. — Director**  
**E. Nissen, Calgary, Alberta — Director**  
**M. P. Pick, Toronto, Ontario — Director**  
**H. F. Gain, Calgary, Alberta — Secretary**

### **REGISTRAR**

**MONTREAL TRUST COMPANY**  
**Calgary, Alberta — Toronto, Ontario**

### **TRANSFER AGENT**

**MONTREAL TRUST COMPANY**  
**Calgary, Alberta — Toronto, Ontario**

### **AUDITORS**

**PRICE WATERHOUSE & CO.**  
**Chartered Accountants**  
**Calgary, Alberta**

## DIRECTORS' REPORT

To The Shareholders:

Your Directors present herewith a Consolidated Balance Sheet, Statement of Income and Retained Earnings, Statement of Source and Application of Funds for Ponder Oils Ltd. and its wholly-owned subsidiaries — Universal Printers Ltd. and Discovery, Inc., — for the year ended December 31, 1971. The net income from operations after providing for taxes amounted to \$235,823 (8.6c per share) as compared to \$190,702 (7.2c per share) in 1970.

PONDER OILS LTD. maintained its 12.06 per cent interest in the Coutts-Moulton "A" Unit in Southern Alberta. In December, 1971, this unit was producing at the rate of 100,000 barrels per year. The estimated gross unit production for 1972 is 110,000 barrels, approximately 10,000 of which will represent Ponder's interest.

In August, 1971, the Company was granted a petroleum exploration concession of 4,200,000 acres in the country of Lesotho located in southern Africa. Exploration for oil and gas in this concession will begin in 1972 as soon as the Legislature of Lesotho completes legislation of its oil and gas laws.

DISCOVERY, INC. purchased a one-sixteenth lease interest in a drilling block of 5,600 acres in the vicinity of the Sale Ranch Spraberry-Dean producing area in Martin County, Texas. The drilling program of 37 wells was started in 1971 and three oil and gas producers were drilled in the fourth quarter. The remaining 34 locations will be drilled in 1972 and 1973.

In 1971, a total of 12 producing oil and gas wells were drilled in Martin County, Texas, in which Discovery owns a one-sixteenth working interest.

At the end of 1971, Discovery owned a working interest in 73 oil and gas wells in Martin and Reagan Counties and an over-riding royalty interest in 13 wells in Martin County. The Company owns an over-riding royalty interest under a block of 4,080 acres in Eddy County, New Mexico, which offsets the Belco #3 James Unit, a recent important Pennsylvanian gas discovery. It is anticipated that drilling will take place on this royalty during 1972.



UNIVERSAL PRINTERS LTD. experienced a sales increase in both the Commercial and Paperback Divisions in 1971.

Sales arising from the V-700 commercial web offset press, installed in late 1970, met the 1971 objective and a further increase is expected in 1972.

With respect to the Paperback Division, it became apparent to management some months ago that if our position in the book industry was to be maintained, then an expansion of our facilities was mandatory. Accordingly, a rubber plate press, binder and trimmer were purchased. In order to accommodate the expanded operation, a long term lease was entered into, providing us with a 40,000 square foot building in West Winnipeg located near our Commercial plant. The total outlay for this expansion, including equipment, installation and leasehold improvements will amount to about \$350,000. Three smaller buildings, that have housed the Paperback Division for some years, have been placed on the market for sale. Management is confident that the resulting increase in our productive capacity and the efficiencies to be derived from the consolidation of our book operation will put us in a strong position for an extended period.

The Directors take pleasure in recording their appreciation for the efforts of the employees during the past year.

You are urged to attend the shareholders' meeting on April 21, 1972, but if unable to do so, please sign and return the enclosed proxy.

Calgary, Alberta,  
April 5, 1972.

For the Board of Directors,  
D. A. McFee,  
President.

ASSETS	DECEMBER 31	
	1971	1970
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 72,214	\$ 86,798
Accounts receivable:		
Trade .....	608,321	500,766
Other .....	31,084	69,479
Overpayment of income taxes .....	—	13,926
Current portion of grant receivable from the Government of Canada .....	—	54,597
Inventories, at the lower of cost and replacement cost ..	164,820	198,098
Marketable securities, at cost (market value— 1971—\$5,530; 1970—\$2,000) .....	9,876	8,750
Prepaid expenses .....	17,818	11,719
	<u>904,133</u>	<u>944,133</u>
 <b>LONG TERM PORTION OF GRANT RECEIVABLE FROM THE GOVERNMENT OF CANADA .....</b>	 <u>13,649</u>	 <u>13,649</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost: (Note 2)</b>		
Land and buildings .....	476,620	253,754
Leases, well costs and equipment .....	705,040	941,185
Machinery and equipment .....	2,027,199	1,645,018
	<u>3,208,859</u>	<u>2,839,957</u>
Less—Accumulated depreciation and depletion .....	1,691,978	1,501,516
	<u>1,516,881</u>	<u>1,338,441</u>
 <b>OTHER ASSETS:</b>		
Deposits on purchase of equipment (Note 8) .....	46,179	—
Unamortized leasehold improvements .....	—	1,732
Organization costs .....	5,237	5,237
Mining claims, at nominal value .....	1	1
	<u>51,417</u>	<u>6,970</u>
 <b>EXCESS OF PURCHASE PRICE OVER BOOK VALUE OF SUBSIDIARY .....</b>	 <u>849,981</u>	 <u>849,981</u>
	<u><u>\$3,336,061</u></u>	<u><u>\$3,153,174</u></u>

**AUDITORS' REPORT**

To the Shareholders of Ponder Oils Ltd.:

We have examined the consolidated balance sheet of Ponder Oils Ltd. and its subsidiaries as at December 31, 1971, and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.



Balance Sheet

	LIABILITIES	
	DECEMBER 31	
	1971	1970
CURRENT LIABILITIES:		
Cheques issued in excess of bank balance .....	\$ —	\$ 55,309
Bank loans, secured (Note 3) .....	166,054	230,672
Accounts payable .....	230,927	268,757
Income taxes payable .....	36,467	—
Sales taxes payable .....	9,726	9,600
Current portion of long term debt (Note 2) .....	67,067	60,000
	<u>510,241</u>	<u>624,338</u>
LONG TERM DEBT: (Note 2)		
First Mortgage Bond, Series A .....	150,000	210,000
Mortgages .....	147,854	13,929
	<u>297,854</u>	<u>223,929</u>
DEFERRED INCOME TAXES (Note 4) .....	<u>63,400</u>	<u>74,200</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL:		
Authorized:		
15,000 6% cumulative redeemable preference shares of a par value of \$100 each		
4,000,000 common shares of a par value of 50c each		
Issued: (Note 5)		
8,334 preference shares (held by subsidiary company)		
2,744,700 common shares .....	1,372,350	1,372,350
CONTRIBUTED SURPLUS .....	5,160	5,160
RETAINED EARNINGS .....	1,087,056	853,197
	<u>2,464,566</u>	<u>2,230,707</u>
APPROVED BY THE BOARD:		
D. A. McFEE, Director		
G. R. GIBSON, Director		
	<u>\$3,336,061</u>	<u>\$3,153,174</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.  
Chartered Accountants

Calgary, Alberta,  
March 17, 1972

# PONDER OILS LTD.

(AND WHOLLY-OWNED SUBSIDIARIES)

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1971

### 1. ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Ponder Oils Ltd. and its wholly-owned subsidiaries, Universal Printers Ltd. and Discovery, Inc. Both Ponder Oils Ltd. and Discovery, Inc., companies engaged in oil exploration, capitalize the costs of productive oil and gas properties and write off dry hole costs and lease rental payments as incurred. The costs of producing properties are written off by depletion charges on the unit of production method. Buildings, plant and equipment, including equipment on producing wells, are depreciated over their useful lives.

### 2. LONG TERM DEBT:

Long term debt, of a subsidiary company, consists of the following:

	<u>CURRENT</u>	<u>LONG TERM</u>
First Mortgage Bond, Series A, repayable in quarterly principal instalments of \$15,000 plus interest at 12½%—secured by mortgage on equipment and certain land and buildings . . .	\$60,000	\$150,000
Mortgage, assumed on purchase of land and building during 1971, repayable in monthly instalments of \$1,385 including interest at 7% . . . . .	7,067	147,854
	<u>\$67,067</u>	

### 3. BANK LOANS:

The bank loans are secured by general assignments of book debts and oil reserves; in addition the Company has pledged with the bank the shares of a subsidiary.

### 4. INCOME TAXES:

Universal Printers Ltd. follows income tax allocation accounting whereby the income tax provision is based on reported income and the difference between the provision and the income taxes currently payable is deferred to future periods. In addition, Ponder Oils Ltd. and Discovery, Inc. have unclaimed drilling and exploration costs and accumulated losses of prior years aggregating \$477,000 which may be deducted from future taxable income.

### 5. SHARE OPTIONS:

As at December 31, 1971, options were outstanding entitling officers of the Company to purchase 100,000 shares at a price of 60c per share on or before February 11, 1976. A further 26,000 were reserved for issuance under employees' stock option plans.

### 6. REMUNERATION OF DIRECTORS AND OFFICERS:

	<u>1971</u>	<u>1970</u>
Paid by the companies to directors and officers of Ponder Oils Ltd. including directors holding salaried employment as officers . . . . .	\$40,912	\$52,150
Paid by the companies to other senior officers . . . . .	64,612	57,500

### 7. CONTINGENT LIABILITY:

A subsidiary company is contingently liable for repayment of up to \$68,246 if it fails to meet the conditions attached to a grant received from the Government of Canada.

### 8. COMMITMENTS:

- The Company has a contract for consulting services requiring payments of \$12,000 in each of the years 1972 to 1980.
- During the year, a subsidiary company entered into purchase contracts for the acquisition of equipment costing \$230,000, on which deposits of \$46,179 had been made by December 31, 1971.
- Subsequent to the year end, a subsidiary company committed itself to a 9-year lease, with renewal options of up to an additional 25 years, for new plant facilities, requiring annual rental payments of \$39,500.



# PONDER OILS LTD.

(AND WHOLLY-OWNED SUBSIDIARIES)

## Consolidated Statement of Income and Retained Earnings

	YEAR ENDED DECEMBER 31	
	1971	1970
Gross sales .....	<u>\$4,152,832</u>	<u>\$3,679,988</u>
Costs and expenses:		
Cost of sales .....	3,152,610	2,759,030
Selling, general and administrative expenses .....	304,359	321,546
Interest (including interest on long term debt of \$32,950; 1970—\$7,981) .....	48,733	47,317
Dry holes and abandoned leases .....	19,442	1,524
Mining exploration .....	—	12,500
Depreciation .....	156,889	134,157
Depletion .....	<u>48,649</u>	<u>53,382</u>
	<u>3,730,682</u>	<u>3,329,456</u>
	422,150	350,532
Other income .....	<u>12,926</u>	<u>8,444</u>
	435,076	358,976
Provision for income taxes (Note 4) .....	<u>199,253</u>	<u>168,274</u>
Net income for the year .....	235,823	190,702
Retained earnings, beginning of year .....	853,197	666,718
Adjustment of prior years' income taxes .....	<u>(1,964)</u>	<u>(4,223)</u>
Retained earnings, end of year .....	<u>\$1,087,056</u>	<u>\$ 853,197</u>
Earnings per share, calculated on the average number of common shares outstanding during the year ...	<u>\$ .086</u>	<u>\$ .072</u>

# PONDER OILS LTD.

(AND WHOLLY-OWNED SUBSIDIARIES)

## Consolidated Statement of Source and Application of Funds

	YEAR ENDED DECEMBER 31	
	1971	1970
Source of funds:		
Operations:		
Net income for the year .....	\$235,823	\$190,702
Add — Expenses not requiring an outlay of funds:		
Depreciation, depletion and amortization .....	205,538	187,539
Dry holes and abandoned leases .....	19,442	1,524
Provision for deferred income taxes .....	(10,800)	(1,800)
	<u>450,003</u>	<u>377,965</u>
Recovery of deposits .....	—	5,300
Issue of shares .....	—	60,725
Decrease in rent paid in advance .....	—	5,568
Issue of 12½% First Mortgage Bond, Series A, less current portion .....	—	240,000
Grant from Government of Canada, less long term portion .....	—	54,597
Proceeds from mortgage, less current portion .....	<u>147,854</u>	<u>—</u>
	<u>597,857</u>	<u>744,155</u>
Application of funds:		
Deposits on purchase of equipment .....	46,179	—
Purchases of property, plant and equipment, net .....	401,688	456,414
Discharge of mortgage .....	13,929	264
Payments on principal of 12½% First Mortgage Bond, Series A .....	60,000	30,000
Payment of prior years' income taxes .....	<u>1,964</u>	<u>17,723</u>
	<u>523,760</u>	<u>504,401</u>
Increase in working capital .....	74,097	239,754
Working capital, beginning of year .....	<u>319,795</u>	<u>80,041</u>
Working capital, end of year .....	<u>\$393,892</u>	<u>\$319,795</u>





